

ORLAND-ARTOIS WATER DISTRICT

**FINANCIAL STATEMENTS
AND INDEPENDENT AUDITOR'S REPORT
for the year ended December 31, 2021**

ROBERT W. JOHNSON
Certified Public Accountant

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INDEPENDENT AUDITOR'S REPORT

To the Board of Directors
Orland-Artois Water District
Orland, California

Opinion

We have audited the financial statements of Orland-Artois Water District, which comprise the statement of net position as of December 31, 2021, and the related statements of revenues, expenses and changes in net position and cash flows for the year then ended, and the related notes to the financial statements, which collectively comprise the District's basic financial statements as listed in the table of contents.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Orland-Artois Water District as of December 31, 2021, and the respective changes in financial position and cash flows thereof for the year then ended, in accordance with accounting principles generally accepted in the United States of America, as well as accounting systems prescribed by the California State Controller's Office and State Regulations governing Special Districts.

Basis for Opinion

We conducted our audit in accordance with auditing standards generally accepted in the United States of America (GAAS) and the State Controller's Minimum Audit Requirements for California Special Districts. Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report. We are required to be independent of Orland-Artois Water District and to meet our other ethical responsibilities, in accordance with the relevant ethical requirements relating to our audit. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Responsibilities of Management for the Financial Statements

Management is responsible for the preparation and fair presentation of the financial statements in accordance with accounting principles generally accepted in the United States of America, and for the design, implementation, and maintenance of internal control relevant to the preparation and

fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about Orland-Artois Water District's ability to continue as a going concern for twelve months beyond the financial statement date, including any currently known information that may raise substantial doubt shortly thereafter.

Auditor's Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with GAAS will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgement made by a reasonable user based on the financial statements.

In performing an audit in accordance with GAAS, we:

- exercise professional judgement and maintain professional skepticism throughout the audit.
- identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements.
- obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of Orland-Artois Water District's internal control. Accordingly, no such opinion is expressed.
- evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the financial statements.
- conclude whether, in our judgement, there are conditions or events, considered in the aggregate, that raise substantial doubt about Orland-Artois Water District's ability to continue as a going concern for a reasonable period of time.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit, significant audit findings, and certain internal control-related matters that we identified during the audit.

Required Supplementary Information

Management has omitted the management's discussion and analysis (MD&A) that accounting principles generally accepted in the United States of America require to be presented to supplement the basic financial statements. Such missing information is the responsibility of management and, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. Our opinion on the basic financial statements is not affected by this missing information.

Supplementary Information

Our audit was conducted for the purpose of forming an opinion on the financial statements that collectively comprise Orland-Artois Water District's basic financial statements. The accompanying supplementary information are presented for purposes of additional analysis and are not a required part of the basic financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. The information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with GAAS. In our opinion, the accompanying supplementary information is fairly stated, in all material respects, in relation to the basic financial statements as a whole.

Robert W. Johnson, An Accountancy Corporation

Citrus Heights, California
June 3, 2022

ORLAND-ARTOIS WATER DISTRICT
STATEMENT OF NET POSITION
December 31, 2021

ASSETS

Current assets:

Cash and investments (Note 3)	\$ 4,029,635
Accounts receivable	75,171
Prepaid expenses	<u>85,625</u>

Total current assets 4,190,431

Capital assets (Notes 4 and 5)	\$25,532,917	
Less, accumulated depreciation	<u>10,173,061</u>	
		15,359,856

Restricted assets:

Reserve cash (Notes 3 and 5)	<u>179,863</u>
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\$19,730,150

See notes to financial statements

LIABILITIES AND NET POSITION

Current liabilities:

Current portion of long-term debt (Note 5)	\$ 857,868
Customer prepayments	322,983
Accounts payable	904
Compensated absences	16,686
Annexation deposits	<u>32,015</u>

Total current liabilities 1,230,456

Non-current liabilities:

Long-term debt, net of current portion (Note 5) 11,305,800

Total liabilities 12,536,256

Net position:

Net investment in capital assets \$8,770,146

Restricted -

Unrestricted (1,576,252)

7,193,894

\$19,730,150

ORLAND-ARTOIS WATER DISTRICT
STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET POSITION
for the year ended December 31, 2021

Operating revenues:		
Water sales		\$ 3,471,212
Operations charge		1,133,929
Distribution system assessments		631,015
CVP construction charges		684,429
Other		<u>23,287</u>
Total operating revenues		5,943,872
Operating expenses:		
Source of supply	\$ 2,945,113	
Transmission and distribution	643,559	
Administrative	270,027	
Depreciation	<u>347,321</u>	
Total operating expenses		<u>4,206,020</u>
Operating income		1,737,852
Non-operating income (expense):		
Interest income	9,257	
Gain on sale of equipment	3,800	
SGMA expenses	(650)	
Interest expense	<u>(286,888)</u>	
		<u>(274,481)</u>
Income before CVP reimbursements		1,463,371
CVP reimbursements		<u>1,475,377</u>
Change in net position		2,938,748
Total net position:		
Beginning		<u>4,255,146</u>
Ending		<u>\$ 7,193,894</u>

See notes to financial statements

ORLAND-ARTOIS WATER DISTRICT
STATEMENT OF CASH FLOWS
for the year ended December 31, 2021

Cash flows from operating activities:		
Receipts from customers		\$ 5,966,791
Payments to suppliers		(3,326,712)
Payments to employees		<u>(281,335)</u>
Net cash provided by operating activities		2,358,744
Cash flows from capital and related financing activities:		
Capital expenditures	\$(89,609)	
Principal reduction on capital debt	(2,265,849)	
CVP reimbursements	1,475,377	
SGMA expenses	(650)	
Proceeds from sale of truck	3,800	
Interest expense	<u>(286,888)</u>	
		(1,163,819)
Cash flows from investing activities:		
Interest income		<u>9,257</u>
Net increase in cash and cash equivalents		1,204,182
Cash and cash equivalents:		
Beginning of year		<u>3,005,316</u>
End of year		<u>\$ 4,209,498</u>
Reconciliation of cash and cash equivalents to statement of net position:		
Cash and cash equivalents		\$ 4,029,635
Restricted – cash and cash equivalents		<u>179,863</u>
		<u>\$ 4,209,498</u>

See notes to financial statements

ORLAND-ARTOIS WATER DISTRICT
STATEMENT OF CASH FLOWS, continued
for the year ended December 31, 2021

Reconciliation of operating income (loss) to
net cash provided by operating activities:

Operating income (loss)	\$1,737,852
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Adjustments to reconcile operating income (loss)
to net cash provided by operating activities:

Depreciation expense	\$ 347,321
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Changes in operating assets and liabilities:

Receivables	22,919
Prepays	7,087
Accounts payable	(4,187)
Compensated absences	(2,440)
Customer prepayments	258,108
Annexation deposits	<u>(7,916)</u>

Total adjustments	<u>620,892</u>
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Net cash provided by operating activities	<u>\$2,358,744</u>
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See notes to financial statements

ORLAND-ARTOIS WATER DISTRICT
NOTES TO FINANCIAL STATEMENTS
for the year ended December 31, 2021

1. Organization:

Orland-Artois Water District (the "District") was formed in 1953 and started water deliveries in 1977. The District currently consists of 29,918 acres located in Glenn County in the Sacramento Valley; the District has 5 diversions off of the Tehama Colusa Canal and delivers water using 110 miles of underground pipeline with about 300 metered deliveries. The District has a contract with the USBR for 53,000 acre-feet of irrigation water annually. The District is governed by a Board of Directors which is elected by the landowners.

2. Summary of Significant Accounting Policies:

The basic financial statements of Orland-Artois Water District have been prepared in conformity with generally accepted accounting principles as applied to government units. The Governmental Accounting Standards Board (GASB) is the accepted standard setting body for establishing governmental accounting and financial reporting principles. The more significant of the District's accounting policies are described below.

Fund Accounting

The District reports the following proprietary fund. All operations are accounted for in this enterprise fund.

Enterprise Fund – The enterprise fund is used to account for water operations that are financed and operated in a manner similar to private business enterprises. The intent of the District is that the costs (expenses, including depreciation) of providing goods and services to the general public on a continuing basis be financed or recovered primarily through user charges.

Basis of Accounting

The accounting and financial reporting treatment applied to a fund is determined by its measurement focus. The enterprise fund type is accounted for on a flow of economic resources measurement focus. With this measurement focus, all assets and liabilities associated with the operation of the fund are included on the balance sheet. Net position is segregated into amounts recorded as net investment in capital assets, amounts restricted and amounts unrestricted. Enterprise fund type operating statements present increases (i.e., revenues) and decreases (i.e., expenses) in net total position.

ORLAND-ARTOIS WATER DISTRICT
NOTES TO FINANCIAL STATEMENTS, continued
for the year ended December 31, 2021

2. Summary of Significant Accounting Policies, continued:

Basis of Accounting, continued

The records are maintained and the accompanying financial statements are presented using the accrual basis of accounting. Under the accrual basis of accounting, revenues are recognized when earned and expenses are recorded when the liability is incurred or the economic asset used. Revenues, expenses, gains, losses, assets and liabilities resulting from exchange and exchange-like transactions are recognized when the exchange takes place.

Proprietary funds distinguish operating revenues and expenses from nonoperating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal operations. The principal operating revenues of the District are charges to customers for water sales and services. Operating expenses for enterprise funds include source of supply, transmission and distribution, administrative expenses and depreciation of capital assets. All revenues and expenses not meeting this definition are reported as nonoperating revenues and expenses.

Depreciation and Amortization

Capital assets are recorded at historical cost. Assets acquired by contribution are recorded at estimated cost or fair market value at the date of acquisition.

Depreciation is calculated by the straight-line method over the estimated useful lives of the respective assets.

Cash and Cash Equivalents

For purposes of the statement of cash flows, the District considers all highly liquid debt instruments purchased with an initial maturity of three months or less to be cash equivalents, including restricted assets. Cash in bank and deposits in the State of California Local Agency Investment Fund (LAIF) are considered to be cash and cash equivalents.

ORLAND-ARTOIS WATER DISTRICT
NOTES TO FINANCIAL STATEMENTS, continued
for the year ended December 31, 2021

2. Summary of Significant Accounting Policies, continued:

Compensated Absences

The District's policy allows employees to accumulate earned but unused vacation which will be paid to employees upon separation from service to the District, subject to a vesting policy. The cost of vacation is recorded in the period earned.

Sick pay is not vested.

Net Position

Net position is classified in the following categories:

Net Investment in capital assets – groups all capital assets, including infrastructure, into one component of net position. Accumulated depreciation and the outstanding balances of debt that are attributable to the acquisition, construction, or improvement of these assets reduce this category.

Restricted – presents external restrictions imposed by creditors, grantors, contributors or laws and regulations of other governments and restrictions imposed by law through constitutional provisions or enabling legislation.

Unrestricted – represents the net position of the District, which are not restricted or invested in capital assets net of related debt.

Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results may differ from those estimates.

ORLAND-ARTOIS WATER DISTRICT
 NOTES TO FINANCIAL STATEMENTS, continued
 for the year ended December 31, 2021

2. Summary of Significant Accounting Policies, continued:

Budget and Budgetary Accounting

The Board of Directors annually adopts an operating budget. The operating budgets are prepared on the accrual basis to match the operating statements.

Investments

Investments consist of LAIF (State of California pooled investment fund) and money market savings accounts. Investments are stated at fair value. Such investments are within the State statutes and the District's investment policy.

3. Cash and Investments:

Cash and cash equivalents as of December 31, 2021 consisted of the following:

Petty cash/till float	\$ 402
Deposits with financial institutions:	
Checking	515,639
Money market	<u>767,953</u>
Total cash	<u>1,283,994</u>
Investments in Local Agency	
Investment Fund (LAIF) –	
General reserve	\$2,913,625
Loan reserve	<u>11,879</u>
Total investments	<u>2,925,504</u>
Total cash and investments	<u>\$4,209,498</u>

ORLAND-ARTOIS WATER DISTRICT
 NOTES TO FINANCIAL STATEMENTS, continued
 for the year ended December 31, 2021

3. Cash and Investments, continued:

Cash and cash equivalents are classified in the accompanying financial statements as follows:

Cash and investments	\$4,029,635
Restricted cash and investments	<u>179,863</u>
	<u>\$4,209,498</u>

At December 31, 2021, the carrying amount of the District's deposits was \$1,283,994 and the balance in financial institutions was \$1,295,200. Of the balance in the financial institutions, \$250,000 was covered by federal depository insurance and \$1,045,200 was collateralized as required by State Law (Government Code Section 53630), by the pledging financial institution with assets held in a common pool for the District and other agencies, but not in the name of the District.

California statutes authorize the District to invest in a variety of credit instruments as provided for in the California Government Code Section 53600, Chapter 4 – Financial Affairs. The Government Code allows investments in obligations of the U.S. Treasury, agencies, and instrumentalities, commercial paper rated A-1 by Standard & Poor's or P-1 by Moody's Commercial Paper Record, bankers' acceptances, repurchase agreements, medium-term corporate notes, mutual funds and the State Treasurer's Local Agency Investment Fund (LAIF). The investments at December 31, 2021 consist of:

	<u>Carrying Amount</u>	<u>Maturity - 12 Months or Less</u>
Balance, December 31, 2021		
Local Agency Investment Fund	<u>\$2,925,504</u>	<u>\$2,925,504</u>

Pursuant to Government Accounting Standards Board Statement 3, the investment in LAIF is not classified in categories of credit risk. The District's funds in LAIF are invested in a diversified portfolio (of underlying investments e.g. U.S. Treasury obligations) such that it considers the risk of material loss to be minimal. The funds held in LAIF can be withdrawn on demand.

ORLAND-ARTOIS WATER DISTRICT
NOTES TO FINANCIAL STATEMENTS, continued
for the year ended December 31, 2021

3. Cash and Investments, continued:

Restricted Cash:

The District had \$179,863 in cash as of December 31, 2021, held at a bank and in LAIF, pledged for the payment or security of the PNC Bank 9(d) and 9(e) Distribution System and CVP Construction loan contracts. The California Government Code provides that these monies, in the absence of specific statutory provisions governing the issuance of bonds, certificates, or leases, may be invested in accordance with the ordinance, resolutions, policies or indentures specifying the types of investments its fiscal agents may make.

4. Capital Assets:

Changes in capital assets for the year ended December 31, 2021 are as follows:

	<u>Balance</u> <u>1/1/21</u>	<u>Additions</u>	<u>Disposals</u>	<u>Balance</u> <u>12/31/21</u>
Distribution system	\$24,064,684	\$ 63,880	\$ -	\$24,128,564
Building improvements	136,101	-	-	136,101
Machinery	58,710	-	-	58,710
Furniture	29,782	-	-	29,782
Wells	1,062,368	-	-	1,062,368
Vehicles	104,027	25,729	19,839	109,917
Office equipment	<u>7,475</u>	<u>-</u>	<u>-</u>	<u>7,475</u>
	<u>\$25,463,147</u>	<u>\$ 89,609</u>	<u>\$ 19,839</u>	<u>\$25,532,917</u>

ORLAND-ARTOIS WATER DISTRICT
 NOTES TO FINANCIAL STATEMENTS, continued
 for the year ended December 31, 2021

5. Long-term Debt:

Long-term debt activities for the year ended December 31, 2021 are as follows:

	<u>Balance</u> <u>1/1/21</u>	<u>New</u> <u>Debt</u>	<u>Debt</u> <u>Retired</u>	<u>Balance</u> <u>12/31/21</u>	<u>Current</u> <u>Portion</u>
PNC Bank 9(d) Distribution System Loan	\$ 6,990,010	\$ -	\$ 400,300	\$ 6,589,710	\$ 415,572
PNC Bank 9(e) CVP Construction Loan	<u>7,439,507</u>	<u>-</u>	<u>1,865,549</u>	<u>5,573,958</u>	<u>442,296</u>
	<u>\$14,429,517</u>	<u>\$ -</u>	<u>\$2,265,849</u>	<u>\$12,163,668</u>	<u>\$ 857,868</u>

In November of 2020, the District converted its 25-year Water Service Contract to a permanent Contract and refinanced its two loans with Bureau of Reclamation under the WIIN Act of 2016. The District also refinanced its two loans with the Bureau. The refinancing of the 9e, CVP Construction, loan received a discount under the WIIN Act and the refinancing of the 9d, Distribution System, loan made the District "paid out" and relieved it from the rules of RRA. The loans reside with PNC Bank at 1.89% interest for 15 years. The amounts borrowed were \$6,990,010 for the 9d loan, and \$7,439,507 for the 9e loan.

The 9d (Distribution System) loan with PNC Bank requires annual principal (December 15) and semi-annual interest (June 15 and December 15) payments of \$540,118 through 2035.

The 9e (CVP Construction) loan with PNC Bank requires annual principal payments (December 15) and semi-annual interest (June 15 and December 15) payments of approximately \$548,000 through 2033. In 2021 the District made a one-time principal payment of \$1,439,507 from the proceeds of the 2021 CVP Construction refund received from the Bureau of Reclamation.

The two new bank loans are not secured by a net revenue pledge. The District has the ability to use water revenue for repayment if it chooses, but the primary source of repayment are the District's land-based charges.

ORLAND-ARTOIS WATER DISTRICT
 NOTES TO FINANCIAL STATEMENTS, continued
 for the year ended December 31, 2021

5. Long-term Debt, continued:

Debt reserve accounts were established and maintained. At December 31, 2021 the District held reserve cash of \$179,863. The District's annual per-acreage charges for Distribution System Assessment and CVP Construction debt service are collected and remitted from reserve cash. The District has the flexibility to invest the funds (in LAIF, bank account, etc.) but the reserve accounts are legally reserved for debt repayment and can't be used for any other purpose. The loan covenant provides that, after seven (7) years, the District can use the reserve fund to prepay the loan balances.

The future annual maturity of long-term borrowings as of December 31, 2021 are as follows:

<u>Year</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2022	\$ 857,868	\$ 230,309	\$ 1,088,177
2023	874,083	214,062	1,088,145
2024	890,603	197,509	1,088,112
2025	907,435	180,642	1,088,077
2026	924,586	163,456	1,088,042
2027-2031	4,891,746	547,916	5,439,662
2032-2035	<u>2,817,347</u>	<u>116,887</u>	<u>2,934,234</u>
	<u>\$12,163,668</u>	<u>\$1,650,781</u>	<u>\$13,814,449</u>

ORLAND-ARTOIS WATER DISTRICT
NOTES TO FINANCIAL STATEMENTS, continued
for the year ended December 31, 2021

6. Pension Plan:

On December 19, 1984, the District established a deferred compensation plan. The plan is a single-employer Simplified Employee Pension (SEP) plan with the assets held in trust by New York Life. The Plan is administered by the management of the District and the provisions of the plan can be changed and amended by the Board of Directors of the District. All full-time salaried employees are eligible to participate in the plan after completing three years of service with the District.

The District pays 100% of the contribution, based on an annual percentage of 7% of the employee's wage. Participant's accounts are credited with the employer contributions. The amount the District contributes each year on behalf of the participating employee is established by the Board of Directors. Investment earnings and losses as well as administrative expenses are also charged to the participant accounts. Allocations are based on participant's earnings and losses of chosen investments or account balances. Employees are vested in the plan upon entrance into the plan. The amount of the contribution for 2021 was \$19,164.

7. Water Revenue Recognition:

For the 2021 water year, the District purchased water under a water service contract from Reclamation and purchased project water from settlement contractors for its water users. Reclamation announced 5% water allocation for water service contractors and a non-Shasta Critical year for settlement contractors. The allocation was later reduced to 0%. Water used between the 5% and 0% allocation announcements was billed as Contract Water. The water purchased from settlement contractors and its use was defined under settlement contractor's rules. These rules allow that the water cannot be used after October 31st and the water was used in June, July and August of 2021. The remainder of the water the District delivered was project water from its water service contract and it paid for it only if used. The District pumped 1,345 acre-feet of water using its 2 deep wells.

For water year 2021 the District base irrigation water was \$190 per acre-foot.

ORLAND-ARTOIS WATER DISTRICT
NOTES TO FINANCIAL STATEMENTS, continued
for the year ended December 31, 2021

8. 2022 Water Supply Outlook:

In 2021 the District delivered about 18,000 acre-feet of water. The winter of 2021 and 2022 was very dry. In March of 2020, the District received a 0% initial allocation for the 2020 water year. The District's multi-year contracts with Settlement Contractors were not valid because the Settlement Contractor's received only 18% of the base water and zero project water. The District will not have enough water for its landowner's irrigation needs.

The District has two (2) deep wells which can produce about 3,000 acre-feet of water if needed. For 2021 both wells will be operating. These wells are tested for water quality every 2 years and Warren Act Contracts are in place. The District will allocate its well water per acre applied for. If more water is requested, the District will look for available water for transfer and purchase it according to the requests of landowners. All water will be prepaid by the landowners. The Warren Act Contract covers several landowner wells as well. The Warren Act Contract permits groundwater to be pumped into the canal and used in the District for a nominal fee per acre-foot.

9. Sites Reservoir Project:

The Sites Reservoir Project continues to move forward although the District is no longer a participant. The District submitted its letter of withdrawal from the Sites Project Authority on August 22, 2018 to be effective on November 22, 2018. The District continued to participate on the Reservoir committee to the end of Phase 1, March 22, 2019.

In 2019 all funds raised with the Sites Charge were added to the LAIF General Reserves. In 2019 the District received two reimbursements from the Sites Project; one for \$178,541 for reservoir construction and another for \$33,254 for the District's share of unused funds at the end of Phase 1. These funds were also added to LAIF General Reserves. Because the total of the two reimbursements, \$211,795 was more than the Sites Charge projected income of \$207,998 for 2019, the Board of Directors decided not to collect the Sites Charge in 2020. FY 2020 would have been the final year for the Sites Charge. At the December 2019 Board meeting, the Directors approved a budget for 2020 which did not include the Sites Charge.

For 2021 the Sites Project continued to move forward and has increased its membership. On December 31, 2021 the District balance to be reimbursed was \$758,205.

ORLAND-ARTOIS WATER DISTRICT
NOTES TO FINANCIAL STATEMENTS, continued
for the year ended December 31, 2021

10. Risk of Loss:

Orland-Artois Water District is exposed to various risks of loss related to theft of, damage to, and destruction of assets; and injuries to employees. During the 2021 fiscal year, the District purchased certain commercial insurance coverages to provide for these risks.

11. Subsequent Events:

Management has evaluated subsequent events through June 3, 2022, the date these December 31, 2021 financial statements were available to be issued.

12. COVID-19:

In March 2020, the World Health Organization declared a global health pandemic of the Coronavirus Disease COVID-19. The District is committed to maintaining water delivery services to customers in its community. To date there has been very little adverse effect on the District's financial position.

SUPPLEMENTAL INFORMATION

ORLAND-ARTOIS WATER DISTRICT
PRINCIPAL OFFICIALS
for the year ended December 31, 2021

BOARD OF DIRECTORS

Mike Vereschagin	President
Ernest Pieper	Vice President
John Erickson	
James Jones	
Charles Schonauer	

OPERATIONS

Emil Cavagnolo	General Manager
Chris Drouillard	Water Superintendent
Justin Rolfs	Field Tech
Karen Osborn	Office Secretary
Brooke Davis	Administrative Assistant

ORLAND-ARTOIS WATER DISTRICT

**REPORT ON ACCOUNTING CONTROLS
AND PROCEDURES**

December 31, 2021

ROBERT W. JOHNSON
Certified Public Accountant



Robert W. Johnson
an accountancy corporation

6234 Birdcage Street, Citrus Heights, California 95610 | robertwjohncpagroup@gmail.com | 916.723.2555
www.bob-johnson-cpa.com

June 3, 2022

To the Board of Directors
Orland-Artois Water District
Orland, California

In planning and performing our audit of the financial statements of Orland-Artois Water District as of and for the year ended December 31, 2021, in accordance with auditing standards generally accepted in the United States of America, we considered Orland-Artois Water District's internal control over financial reporting (internal control) as a basis for designing audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the District's internal control. Accordingly, we do not express an opinion on the effectiveness of the District's internal control.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect and correct misstatements on a timely basis. A material weakness is a deficiency, or combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the District's financial statements will not be prevented, or detected and corrected on a timely basis.

Our consideration of internal control was for the limited purpose described in the first paragraph and was not designed to identify all deficiencies in internal control that might be material weaknesses. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified. We have enclosed other recommendations for your consideration.

This communication is intended solely for the information and use of management and Board of Directors, and others within the District, and is not intended to be, and should not be, used by anyone other than these specified parties.

Sincerely,

Robert W. Johnson, An Accountancy Corporation

Robert W. Johnson, An Accountancy Corporation
Citrus Heights, California
June 3, 2022

1. Operating Results:

	<u>Year Ended</u>		<u>Favorable/ (Unfavorable)</u>
	<u>December 31, 2021</u>	<u>December 31, 2020</u>	
Operating revenues	\$5,943,872	\$4,933,419	\$ 1,010,453
Operating expenses	<u>4,492,908</u>	<u>4,557,064</u>	<u>64,156</u>
Operating income (loss)	1,450,964	376,355	1,074,609
Other revenue (expense)	12,407	(78,267)	90,674
Other – Bureau of Reclamation	<u>1,475,377</u>	<u>1,201,478</u>	<u>273,899</u>
Net income (loss)	<u>\$2,938,748</u>	<u>\$1,499,566</u>	<u>\$ 1,439,182</u>
Cash	<u>\$4,209,498</u>	<u>\$3,005,316</u>	<u>\$ 1,204,182</u>
<u>Observations:</u>			
Operating revenues	\$5,943,872	\$4,933,419	\$ 1,010,453
Source of supply	<u>2,945,113</u>	<u>3,243,444</u>	<u>298,331</u>
Gross profit -			
Water	<u>\$2,998,759</u>	<u>\$1,689,975</u>	<u>\$ 1,308,784</u>
Cash	\$4,209,498	\$3,005,316	\$ 1,204,182
Customer prepay	<u>322,983</u>	<u>64,875</u>	<u>(258,108)</u>
Net	<u>\$3,886,515</u>	<u>\$2,940,441</u>	<u>\$ 946,074</u>

2. Prior Year Recommendation:

Long-Term Debt Reserve Requirement:

Recommendation:

PNC Bank loan covenants require that debt reserve accounts be established and maintained.

We recommended the District establish the debt reserve account(s) in accordance with loan requirements. Debt reserve cash and the restricted portion of LAIF will be reflected as “restricted” rather than “operating” cash on the District’s financial statements.

We further recommended that the Board consider formally establishing equity “net position” restrictions in amounts equal to the (cash) debt reserve for the life of the loans, 15 years. See Note 2 to the audited financial statements, Summary of Significant Accounting Policies, for explanation of net position classifications regarding “Restricted” and “Unrestricted” Net Position categories.

Follow-up:

At December 31, 2021 the District held reserve cash of \$179,683 in two restricted bank accounts (and a small portion of dedicated LAIF investment.) This cash is shown as restricted cash on the District’s balance sheet

The Board made no changes to District equity reserves.

3. Employee Health Insurance Payments:

Observation:

Two employees are reimbursed directly for health insurance coverage (Medicare premium reimbursement.) These payments are not processed through the District’s payroll system and leave the District liable for the possibility of unreported wages, including income taxes and social security taxes on the monthly payments to employees.

Recommendation:

We recommend that the Board of Directors adopt an “accountable plan” that follows the Internal Revenue Service (IRS) guidelines for employee expense reimbursement to ensure that such reimbursements are not reclassified as wage income in the event of a payroll tax audit.

